CHEMONICS INTERNATIONAL INC.

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA UNDER THE GENERAL BUSINESS TRADE AND INVESTMENT INDEFINITE QUANTITY CONTRACT (GBTI IQC)

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Quarterly Performance Report
July-September 2004

Submitted by:
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CONTENTS

IMPROVING THE BUSINESS AND INVESTMENT CLIMATE AND IMPLEMENTING ECONOMIC REFORMS IN NICARAGUA

This is the fourth and final Quarterly Report of the Nicaraguan GBTI Task Order to Improve Economic Competitiveness: Improving the Business and Investment Climate and Implementing Economic Reforms in Nicaragua. The objective of this task order is to support the creation of a sound business and investment climate in Nicaragua as a means to improve the country's overall competitiveness position. The contract was signed on October 31, 2003 and work began immediately.

Section A provides an overview of the project, the key objectives, and the underlying implementation strategy. Section B describes in detail key results during the reporting period, and Section C describes the principle activities to be carried out during the month of October as part of the Task Order close-out process. Deliverables and reports generated by the project during the reporting period are included as Annex A, Economic Incentives, Assessment and Recommendation Report, submitted to USAID on July 31, 2004; Annex B, Economic Analysis/Recommendation Paper #3: DR-CAFTA Quantitative Impacts and Determinants of Competitiveness; and Annex C, Minutes on Private Sector Meetings held during the reporting period.

A. Introduction and Project Overview

Since Chemonics began its operations in Nicaragua, it has been providing economic policy advice to the President's Chief of Staff in the Presidential Secretariat for Strategy and Coordination (SECEP) to help the Government of Nicaragua (GON) formulate and implement strategies and economic reforms to stimulate the Nicaraguan economy and increase trade and investment. Through this task order, and in coordination with the GON, USAID and private sector stakeholders, Chemonics has been working to create an adequate environment for increased trade and investment and to improve economic incentives and Nicaragua's economic competitiveness.

Technical assistance builds on a wide range of existing initiatives, rather than creating new mechanisms. A great deal of effort has been devoted to enhance SECEP coordinating work with the various ministries within the productive sector, including: The Ministry of Development, Industry and Trade (MIFIC), the Agency for Promoting Investment, Pro-Nicaragua, and the Ministry of Agriculture and Forestry. Likewise, an important role has been played in help the GON coordinate its efforts with the key private sector organizations including COSEP, AMCHAM, and CONPES. The end goal is to facilitate the creation of new trade-led economic opportunities for the Nicaraguan poor, consistent with USAID's overarching strategic objective for the new 2003-2008 strategy period.

A1. Key Objectives

Work under this task order focuses on achieving four primary results:

- **Result 1:** Enabling Environment for Increased Trade and Investment Enhanced
- **Result 2:** Key Economic Policies Reformed and Economic Incentives and Business Environment for Trade and Investment
- **Result 3:** Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders
- **Result 4:** GON Ministries and Donor Programs Coordinated

B. Tasks Completed During the Reporting Period

This section outlines the main results and activities carried out during the third quarter (July, August and September) of the year 2004.

B1. Administrative Tasks

Chemonics' home office project management unit continued to provide administrative support to the task order. Ms. Marina Paz, who has been providing back-stopping support to the GBTI task order, will travel to Nicaragua for the close-up of the project. .

B2. Result 1: Enabling Environment for Increased Trade and Investment Enhanced

B2.1 Completion of the NDP-Operative Version

During this reporting period the Project has continued to provide technical assistance to SECEP to complete the country's National Development Plan-Operative Version (NDP-O), which serve as a "Second Generation Poverty Reduction Strategy" for Nicaragua. The Final NDP-O has now been delivered to the donor community and the broader civil society for their inputs and is scheduled to enter in operation in January 2005. The NDP-O has also served as a basis for the preparation of the 2005 Budget Request, which will be sent to the National Assembly by October 15th, 2004.

The National Development Plan and its subsequent Operative version, finalized during this reporting period, has taken an important portion of the effort of the present Task Order over the entire year. Both the NDP and the NDP-O have entailed complex consultative processes involving the various Government ministries and public agencies, the private sector and the civil society. Dr. Laureano's assistance has been critical in helping the GON maintain a sense of direction as to where Nicaragua should direct its limited resources to promote strong and sustainable economic growth that can result in a significant decrease in poverty levels over the next few years.

Assistance for this reporting period has focused on providing assistance to SECEP in the process of elaborating a new NDP-O document that corresponds to the detailed operational matrices. Together with another SECEP technical staffer, Dr. Laureano supervised the re-writing and the technical coordination efforts for the productive and competitiveness chapter of the NDP-O. After several discussions with the technical team and Dr. Mario De Franco, Secretary for the SECEP, Dr. Laureano suggested changing the structure of the productive and competitiveness chapter of the document into two chapters:

Chapter 3: Building a Competitive Environment: This chapter includes the following sections:

- Business Regulatory Framework (Administrative Simplification, Competition Law and Quality Control Systems)
- Property Rights
- Access to Finance
- SME's Market Linkages
- Export Promotion
- Foreign Direct Investment Attraction
- Rural Development
- Environmental Sustainability
- Supporting Infrastructure

Chapter 4: Support to Selected Productive Clusters: This chapter has been re-written to better relate the document to the specific objectives, actions and initiatives described in the various productive matrices corresponding to (1) selected Food and Natural Resources clusters: Coffee, Meat and Dairy, Shrimp, and Forestry and Wood Products; (2) Light Manufacturing (textile and apparel); and (3) Tourism.

This re-organization allowed for grouping together all the constraints and crosscutting issues that affect the policy/regulatory and physical environment within which firms in Nicaragua have to operate. The NDP-O was handed to the donor community and the civil society on September 22, 2004. A subsequent meeting will be held on October 18, 2004 to receive donors' comments and for the GON to share its priorities and strategies to implement the plan as scheduled.

B2.2 Coordination of Irish Technical Mission to Nicaragua

As a follow-up activity of the Strategic Investment and Competitiveness Workshop held in Ireland from June 12th through June 24th, 2004 attended by a Nicaraguan delegation, including Dr. Laureano (Outlined in the 3rd Quarterly Report); the GON decided to bring a two person technical team from Ireland to explain their experience to the Nicaraguan decision makers. Mr. David Lovegrove and Mr. John Magill came to Nicaragua from September 7 to 10th, 2004.

The Technical Assistance was financed by the Policy Component of the USAID/IICA program. However, Dr. Laureano was asked by SECEP and IICA to assist in the coordination of this visit to ensure a positive outcome. Dr. Laureano suggested the conformation of a Technical Coordination Team including Dr. Horacio Rose from CESEP, Dr. Marino Chanlatte from IICA, Ms. Maria Rivas from Pro-Nicaragua and Dr. Laureano from Chemonics. During the Irish team visit, meetings were schedule with the National Assembly, MIFIC, Pro-Nicaragua, CONPES, PROVIA, IICA, and SECEP. The visit ended with a three-hour session with the entire Government Cabinet headed by President Bolaños. President Bolaños, the Cabinet members and key members of Congress, showed a very positive disposition to the Irish message.

Throughout the various meetings there were some critical points made clear by the visiting team, which are worth mentioning:

- The level of jobs and opportunities sought by the population cannot be met by the local private sector—the country needs to turn to FDI as a central economic driver.
- Nicaragua cannot move forward without a “Partnership Agreement” that brings all the key interest groups together (i.e. GON, National Assembly, Labor groups, Private sector, and the population). The GON has to provide the necessary leadership to place the country’s interests above that of individual groups.
- Country resources are limited; one needs to invest them where the country can obtain the highest return. Social expenditures are good, but if the country cannot grow faster, these expenditures are not sustainable;
- Education and the Enterprise Sector should take first priority in order to promote accelerated growth in Nicaragua.
- Nicaragua needs to establish itself as the “best” investment location in the region for certain areas—cannot compete in everything, everyone else is moving fast.
- More importantly, Nicaragua cannot keep waiting for the perfect plan and the perfect solution because it will never come.
- Take a practical and pro-active approach—shift to implementation, and learn from your mistakes
- Communicate strategy, action plans and results to the population.
- The donor community, EU and USAID, played an important role in supporting Ireland’s vision and economic transformation program. They could be very helpful to Nicaragua, but the GON has to provide leadership.

After listening to the Irish approach and economic transformation, President Bolaños personally explained to the Irish consultant the difficulties that Nicaragua faces including the need to bring everyone to the table for the good of the country. Mr. Lovegrove acknowledged that the situation in Nicaragua could be worse than that of Ireland in 1987, when tough decisions were made to change the course of the country, but reminded everyone that the GON has to find the way to engage stakeholders and the broad population on specific discussions about specific problems and the most appropriate solutions.

Ireland’s practical approach has been mentioned as a model to follow by President Bolaños in several public appearances after the Irish Team visit. Several Ministers including Education and Finance want to learn more about this particular experience and its implication for the country. The Irish team also provided some useful assistance and feedback to the Pro-Nicaragua team. They were positively impressed with the quality of the people working at Pro-Nicaragua and believe that important results for the country can be obtained by strengthening their technical skills. However, the Team felt that more work is needed to strengthen the institutions and teams working on competitiveness in Nicaragua.

B3. Result 2: Key Economic Policies Reformed and Economic Incentives and Business Environment for Trade and Investment Improved

Two key assessments were conducted during the July-September period to identify barriers to trade and investment and provide appropriate recommendations. First, an assessment was conducted to examine the country's economic performance, the existing incentive regime and the principle to which Nicaragua should adhere to promote an accelerated growth process capable of generating employment and income opportunities for its citizens. This report was submitted to USAID on July 31, 2004. Second, an analysis was conducted to assess quantitative impacts of DR-CAFTA using recent data from the U.S. International Trade Commission and to assess the Nicaraguan firms' competitiveness position in light of six determinants of competitiveness. This analysis is being submitted in conjunction with the present Quarterly Report. Both of these reports have been included in full as Annexes to this Quarterly Report.

B3.1 Economic Incentives Assessment /Recommendations report due July 31st, 2004

Chemonics' assessment of Nicaragua's economic performance and the existing incentive framework for the productive sectors underscores, among other recommendations, the need to accelerate economic growth through:

- The consolidation of macroeconomic stability,
- An improved microeconomic incentive framework conducive to trade, business development, and investment, and
- An improved property rights regime.

Achieving these desirable results would require a strong shift from policy formulation to implementation in a series of fronts, including:

- A new rural development program to provide clear incentives and a framework to promote integrated rural development to farm and non-farm enterprises by linking high potential enterprises to markets through domestic and foreign direct investment opportunities;

- An aggressive property formalization program to eliminate one of the most serious impediments to growth in Nicaragua;

- A better articulated investment promotion program focused on high-potential sectors such as the food industry, agribusiness, electronics, vertically integrated textiles and apparel, internationally traded services, and tourism;

- The visualization and adaptation of existing transfer mechanisms as a basis for elaborating a broader equity policy in the country;

- ❖ Adoption of a more proactive cluster development strategy to link local productive capacity more directly to market opportunities, attract investment, and foster value-added initiatives.

The assessment points out the need to adhere to clear policy principles at the policy and competitiveness level in order to build on the strong macroeconomic stabilization program undertaken by the country in the last two years. There is also a need to support a more active private sector, both domestic and foreign, that is willing to access new markets and take advantage of new opportunities resulting from US-DR/Central America Free Trade Agreement (DR-CAFTA) and other recent trade agreements. These principles include:

<u>At the Policy level</u>:

- Managing the public finances in a way that ensures a sustainable match between resources and expenditures and that avoids imposing an unfair burden on future generations;
- Within a sound budgetary framework, maintaining a high level of infrastructure investment focused on improving the productive capacity of the economy—that is investing scarce resources in areas where the country can obtain the highest possible returns;
- Promoting and maintaining competition across all sectors of the economy to ensure maximum efficiencies and lowest cost goods and services for the population;
- Ensuring that a proper balance between producer and consumer interests is at the center of policy making by promoting greater consultation and transparency in formulating legislation and regulation;
- Focusing on the quality and quantity of new and existing regulation (including enforcement) so as to minimize burdens, to reduce market entry barriers and to increase entrepreneurship and innovation.

<u>At the Competitiveness Level:</u>

- Regaining and sustaining Nicaragua's competitiveness in its cost dimension and in all the other dimensions;
- Establishing appropriate regulatory arrangements for the economy which are designed to achieve competitiveness gains while safeguarding the public interest, in particular with regard to maintaining services of general interest and the need to ensure infrastructure investment;
- Addressing structural deficits and supply side weaknesses that limit the capacity to achieve strong economic growth and thereby sustain high employment;
- Taking account of the need to reduce pressure on the environment and respect Nicaraguan's international obligations; and
- Focusing on what is necessary to enable the economy to create and expand high value-added economic activity, while accelerating jobs creation and economic diversification, especially in the rural areas of Nicaragua.

B3.2 Economic Incentives Assessment /Recommendations report

In terms of evaluating Nicaragua's potential gains from DR-CAFTA as well as the actual competitiveness position of the Food and Natural Resources-based clusters, an analysis was conducted using recent data from the U.S. International Trade Commission and a draft Chemonics' approach that considered six key determinants of a firm's competitiveness. The analysis, which is included as Annex C, of this Quarterly Report, emphasized the following findings:

<u>DR-CAFTA Quantitative Impacts</u>:

1. After full implementation of the DR-CAFTA the USITC model predicts the following broad results:

- U.S. imports from the CA/DR region will increase by US$2.8 billion;
- U.S. exports to the region would increase by US$2.7 billion.
- Accordingly, there will be an estimated trade increase of US$5.5 billion as a direct result of the DR-CAFTA.

2. On the U.S. export side (CA/DR imports), wining sectors include:

- Textiles, apparel, and leather products ($803 million), basically for DR/CA industry's inputs;
- Petroleum, coal, chemical, rubber, plastic products ($406 million);
- Other machinery and equipment ($401 million);
- Other manufactures ($235 million);
- Grains ($157 million); and,
- Motor vehicles ($180 million).

3. On the CA/DR export side (U.S. imports), wining sectors include:

- Textiles, apparel, and leather products ($3,067 million);
- Sugar manufacturing ($113 million); and,
- Meat products ($13 million).

4. On the CA/DR side, sectors showing a decrease in export include:

- Services (-$100 million);
- Other machinery and equipment (-$96 million);
- Electronic equipment (-$56); and
- Vegetable, fruits and nuts (-$31 million).

Materialization of the projected increase in textiles, apparel, and leather products, which account for more than the total net increase in exports to the U.S. of about $2.8 billion, is likely to depend on the ability of CA/DR producers to adjust to an increase in competition in the U.S. market from Asian suppliers following quota elimination in 2005. Given the lower labor cost of Nicaragua, the trainability of the labor force and the preferential treatment obtained under the agreement for the textile and apparel sector, however, provides Nicaragua with a strong competitive edge for the next ten years, over its regional neighbors. On the other hand, projected decreases in export for other sectors might reflect the fact that the model does not project a significant inflow of Foreign Direct Investment into the CA/DR region as a result of the agreement.

The USITC results underscore the need for Nicaragua to improve competitiveness both at the country level—through the establishment of a sound policy and regulatory framework conducive to business development, trade and investment, which for the most part has been specified under the NDP-O—and at the firm level. Firms operating in Nicaragua, especially within the food and natural resources-based industries need to undertake a competitiveness-improving process that will allow them to take advantage of new economic opportunities made available through the various free trade agreements being negotiated.

Accordingly, the analysis looks at competitiveness at the firm level in light of six determinants of competitiveness including: (i) sales and marketing, (ii) innovation, (iii) technology and production, (iv) management and leadership, (v) finance and accounting and (vi) human resource development. Firms could move up along each determinant into four stages of competitiveness—from low to high.

The report emphasized that firms located within the prioritized Food and Natural Resource-based Industries tends to exhibit a low level of competitiveness when measured through six key determinants of competitiveness. The analysis shows that most firms are located within competitiveness stages 1 and 2 for each of the selected determinants. Accordingly, efforts are needed in all six competitiveness function areas to guarantee that the country will take full advantage of new opportunities made available by the various trade agreements recently negotiated. The current state of competitiveness using six key determinants can be summarized as follows:

- <u>Sales and Marketing</u>. There are a handful of world class enterprises in Nicaragua, especially in the financial service sector. However, firms located within the food and natural resource-based industries have very little marketing or sale force, are not customer oriented and have little control over distribution. Brand development is incipient and there is still a broad disconnect with the final consumers.

- <u>Innovation</u>. Most firms are using basic applications and only the bigger players have some level of technology innovation in their production lines. Food and natural resource-based industries are engaged in high-volume, low value products and there is little movement along the value chains of the various products and activities.

- <u>Technology/Production</u>. Production processes are absolute and do not for the most part incorporate adequate quality controls. Very few firms count with quality certifications, while productivity remains low for most of the activities within the industries. Given Nicaragua prime land and central location within the region, there is some potential for a medium to high value-added food industry to emerge. This would require significant direct investment flows into these activities.

- Management/Leadership. Most firms in Nicaragua are still run as family business and don't have an actual enterprise structure. Only a handful of small and medium enterprises actually follow a business plan and have written strategies with specified objectives and clear expected results. Attracting FDI into the food and natural resources- based industries could be a good way to bring leadership and best practices into these sectors.

- Finance/Accounting. Small and medium firms in Nicaragua don't have auditable financial records in their operation, as a norm. Only few enterprises which leverage their financing in the local banking system have some sort of accounting records in place. Lack of credit resources undermine the potential for these industries to modernize and expand. This is particularly true for shrimp and forestry firms.

- Human Resources. A major impediment to quality, productivity and expansion is the overall lack of coherent training and skill development programs in the country. There are many efforts supported by the donor community which focus on developing skills in Nicaragua. However, these efforts are fragmented and for the most part uncoordinated. The tax levy imposed on business through the 2 percent given to INATEC, operates as a disincentive for firms to spent resources on training their labor force.

The analysis grouped recommendations in two categories:

Recommendation #1: In order to take full advantage of the DR-CAFTA and to attract the level of FDI that the country requires to create new economic opportunities for its citizens, it is necessary that:

- The GON allocation of the textile and apparel TPL, as well as sugar quotas, be guided by the principle of maximizing social impact.
- Nicaragua establish itself as a prime location for medium-value manufacturing in the region to attract U.S., Asian, Middle East and Central American investors who want to take advantage of the permanent benefits made available with this trade agreement.
- Becoming a prime location for medium-value manufacturing, requires a major mindset change. Foreign Direct Investment will not come to Nicaragua in the amount required unless the country can show that Nicaragua is a good location for doing business in a profitable manner.

Recommendation #2: In order to accelerate a change in mindset of the enterprise sector and further an improvement in the competitiveness position of firms operating in Nicaragua in a way that allows them to compete successfully in the international market, it is recommended to:

- Establish a comprehensive business development assistance package—which could be based on the six determinants of competitiveness describe above—which allows for Nicaragua to make headway in its development process.
- Promote a concerted public-private effort to address these determinants at the industry and firm level which could result in significant improvement of the current competitiveness situation.
- Strengthen existing enterprise support programs aimed at improving the competitiveness position to focus on all determinants in order to spur a new entrepreneurship spirit within the local industries, especially with in the food and natural resources-based industries.
- Focusing on the above determinants for competitiveness and how to foster movements from low level to high level of performance need not to be in contradiction to the cluster approach being prioritized in Nicaragua.
- The status quo is not a viable option for Nicaragua as the rest of the region is moving fast to readjust their reality to the new market environment and the new opportunities emerging from the myriad of trade agreements that the region is getting itself into.

B4. Result 3: Improve Nicaragua's Economic Competitiveness by Increasing the Participation of Private Sector Groups and other Relevant Stakeholders

Over the reporting period, Dr. Laureano held key meetings with the Nicaraguan Private Sector. The minutes of these meetings are included in Annex C.

B5. Result 4: GON Ministries and Donor Programs Coordinated

During this reporting period, Dr. Laureano participated in several meetings with USAID and GON representatives. The following illustrates the main topics addressed at these meetings:

- The main results achieved by the Task Order to date;
- Completion of Chemonics assistance to USAID and the GON on the final Concept paper for OPORTUNIDAD and disengagement from further work associated with specific design issues beyond the overall concept idea.
- The importance of Nicaragua to have a realistic MCC proposal and the establishment of a broad consultation mechanism.

Dr. Laureano has participated in several meetings that took place between USAID and the GON's Presidential Secretariat for Strategy and Coordination on the topics of OPORTUNIDAD and the Millennium Challenge Account (MCA) for Nicaragua. The meetings have centered on:

OPORTUNIDAD:

- Discussing functions and coordination mechanisms under the program mandate of the OPORTUNIDAD Unit and the decision for Chemonics to disengage from any further work dealing with the actual design and/or Board selection process for the unit;

MCA:

- Participation with Juan Sebastian Chamorro, Nicaragua's MCC Point of Contact, in private sector meetings with groups such as COSEP and AMCHAM where the GON would share and discuss the country's draft proposal to the MCC;
- Support Dr. Juan Sebastian Chamorro in coordinating with technical personnel from Pro-Nicaragua, MIFIC and the CPC in preparing detail analysis for the MCC component dealing with promoting an "Industrial Park and an In-land Container Handling Facility (Dry Port) in the Chinandega-Leon region."

Finally, Dr. Laureano has been in constant communication with Ms. Lilliam Baez, the USAID CTO, Mr. Steve Olive, from USAID's Trade and Agribusiness Office, and the Front Office in order to maintain open channels of communication regarding the pressing economic issues affecting Nicaragua. Through face-to-face meetings, telephone briefings and emails, Dr. Laureano has ensured that the USAID Mission obtains first-hand information on the transient economic events in Nicaragua.

C. Planned Activities for ensuring a proper Close out process by October 29, 2004

The home office assistant project administrator, Marina Paz, will travel to Managua to prepare for project close-out and to carry out an administrative audit of field office project files and electronic records and dispense of project commodities (office equipment and furniture, household furniture). She will work with Efrain Laureano, the Senior Economic Advisor, and Amanda Fonseca, Research Assistant, to ensure that project documentation is complete. Ms. Paz will also consult with the Mission on the quality of the work developed to date. She will consolidate achievements and assure USAID requirements are met.

D. Summary of Project Administrative Data: July 1 to September 30, 2004

Level-of-effort during reporting period:	67.6 Expatriate/TCN person-days billed
Cumulative level-of-effort:	273.44 Expatriate/TCN person-days billed
Unused level-of-effort:	34.06 Expatriate person-days
Expenditures during reporting period:	$86,385 Billed and projected
Cumulative expenditures to date:	$357,362.75 Billed
Balance:	$67,309.25

ANNEX A

Nicaragua: Fourth Quarter Private Sector Meetings

Reunión Aceitera El Real
Ing. Jorge Salazar
Dr. Efraín Laureano
Lic. Amanda Fonseca
Lunes 30 de Agosto de 2004

ON August 30, 2004 a working meeting was conducted with Jorge Salazar from Aceitera El Real, a company belonging to one of the most important economic and financial group in Nicaragua, headed by Mr. Ramiro Ortiz. Mr. Salazar explained the vision of the group in the areas of African Palm and Peanut and how the group views the current state of economic and political affairs in Nicaragua.

Mr. Salazar is the Executive President of Aceitera El Real, a cooking oil company founded tour years ago in Nicaragua. The main purpose of the firm is to export peanut oil to the U.S. market. Additionally, the firm imports crude palm or soybean oil from Costa Rica and Malaysia, refine the oil and trade it in the local market under the private labeling of "Aceite Ambar". They control 25 percent of the local cooking oil market, with sells around 700to 1,000 tons per month. One of their tougher competitions comes from firms located at the Oriental market, which control between 10 to 15 percent of the market. These firms according to Mr. Salazar smuggle the refined oil into the market without paying the 15 percent tariff and don't meet required environmental standards, creating an unfair competition in the market. Other key competitors include Nacho Gonzalez, the Chamorro family, among others.

At this time, this financial group is engaged in a significant investment and expansion program in the agricultural sector, which includes activities such as:

- The reactivation of the soybean production in Chinandega region. Until recently, Nicaragua produced some 30,000 manzanas of soybean in this region. The collapse of Gracsa, the only soybean refinery company in the country, resulted in the disappearing of the soybean as a profitable production activity. Salazar indicated that the Japanese market is interested in Nicaraguan soybean as it has not been generically modified yet. There is market potential for some 60,000 hectares. The group is working on a guarantee price scheme to stimulate production.

- Establish an African Palm plantation in the Rio San Juan area. He project wants to plant some 5,000 hectares in the next couple of years.

When asked what kinds of actions were needed to foster these activities in Nicaragua, Mr. Salazar indicated that there is a need for:

- To have better control systems at port facilities to eliminate smuggling
- Establish quality labs and quality control systems to ensure the quality of both imported and exported oil.
- Enforce the sanitary rules of t country

- Improve the distribution system. At this point cooking oil is distributed in open 55 gallons plastic containers that do not met health requirements and conditions.

When asked about how World the weak legal system affect their decision to invest in land and plantations, Mr. Salazar indicated that the key in Nicaragua to do business is to keep you out of politics. As long as you are no a threat to some special interest groups, they will le you do your business. This is one of the reasons that people such as Ramiro Ortiz, Holman, and Pellas don't provide open endorsement to any party. Jorge explained that after given consideration to all the elements, they still think that their projects are solid and profitable projects. In that regard, they will continue to expand operations in the country, and especially within the agricultural sector.

Meeting with the Superior Council for Private Enterprise, COSEP
Mr. Alfredo Cuadra, Presidente COSEP
Dr. Efraín Laureano, CHEMONICS, Nicaragua
Lic. Amanda Fonseca, CHEMONICS, Nicaragua

Meeting on August 27, 2004

Chemonics International held a working meeting with Mr. Alfredo Cuadra, Executive President of COSEP, on August 27, 2004. Mr. Cuadra spoke of the concerns that the Nicaragua private sector have for what is happening at the political level and the role that the same private sector has had in the problem.

When asked what were the most important problems affecting an accelerated export driven growth process, Mr. Cuadra responded as follows:

- First of all, the high level of political influence on the judicial system in Nicaragua, undermine investment and business development in the country.
- Business people have to use significant portion of their time to ensure their own political connections are in good standing.
- The second big problem of Nicaragua was identified as the electricity service. Accordingly, Nicaragua exhibits the highest cost service in the Central American region. Mr. Cuadra believes that given the current crisis in the petroleum market, the situation should stimulate decision makers to invest in alternative energy sources such as hydroelectric and aeolic energy sources. However, he senses some problem as the politicians in the National Assembly are more concern about prohibiting hydroelectric projects in the country.
- Mr. Cuadra believe the government should put forward a new law that provide special incentives for those who wants to invest in alternative energy projects (i.e. Hydroelectric, aeolic, geothermic, etc.
- While the GON has made significant improvements in the area of business registration through the “Investment Simplification Window” (Ventanilla “Unica), the authorities should establish a monitoring process to ensure that the new mechanism is working as anticipated.
- M. Cuadra also indicated that inflexibility in the labor market drive labor costs up, though it is compensate by the low wage y to the employee.
- One key point stressed by Mr. Cuadra is to take the public registry away from the Supreme Court.

Mr. Cuadra indicated that one big problem associated with the lack of the rule of law in the country is that the private sector is afraid of the system. That is, they will pay to avoid been framed with a political driven judicial case. This particular comment is sad, as the country cannot change the way it does business, unless the private sector is wiling to fight the system and the politicians.

During the meeting, Mr. Cuadra provided some examples on how the Court is being used to drive away competitions from any particular activities where only one provider, specially a political oriented person, exists in the market. Judicial cases are made up and judges ruling substitute economic efficiency, productivity and innovation as the key forces to eliminate competition.

Meeting on October 6, 2004

A second meeting was held with COSEP on October 6, 2004, as a follow up on the NDP-O. This meeting was headed by Mario De Franco, from SECEP; and most of the Board of the Directors of COSEP, including the Executive President, Mr. Alfredo Cuadra. SECEP technical staff that participated in the elaboration of the plan was also present, including Dr. Laureano. The purpose of the meeting was to have an open dialogue between the public and the private sector on the government ideas and proposed actions.

The private sector highly values the 4 hour exchange and agrees to establish a regular meeting mechanism to sustain an orderly dialogue with the government. In that regard, a weekly meeting (every Wednesday) has been establish between the GON and COSEP. Different Ministers will be invited to the weekly meeting to touch on specific topics under that minister responsibility. The NDP-O will be the guiding document for the meetings. Mario De Franco said that these meetings could be the channel through which the private sector could provide continue feedback on how well the GON is meeting its commitments as outlined in the plan. Given the action orientation of the NDP-O and that fact that the various operational matrices indicate actual responsible institutions and people, De Franco would like to see the private sector holding the government accountable for the fulfilling of the plan. For instance, if the plan specified that a particular road will be initiated by March 2005, the private sector very easily could hold the MTI Minister accountable to giving that particular work on time.

One of the problem affecting the policy and regulatory environment in Nicaragua is the lack of follow-up mechanism to ensure that commitments are in deed realized. This policy dialogue mechanism is in many ways similar to the “Business Roundtable” proposed to the Presidential Competitive Commission last December.